

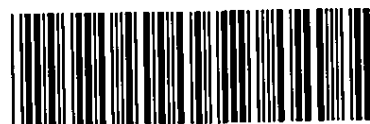
IMI Kynoch Limited

Directors' report and financial statements

For the year ended 31 December 2008

(Registered in England - number 713735)

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IMI KYNOCH LIMITED**Directors' report and financial statements
for the year ended 31 December 2008**

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IMI KYNOCH LIMITED
Directors' report
for the year ended 31 December 2008

IMI

Directors : J O'Shea
J C Morgan (formerly J C Bower, resigned 19 February 2009)
H Afford (appointed 19 February 2009)
D M Hurt

Secretary : H Afford

Registered Office : Lakeside
Solihull Parkway
Birmingham Business Park
Birmingham, B37 7XZ

The Directors of IMI Kynoch Limited submit their Report together with the financial statements for the year ended 31 December 2008.

1. Business review and principal activities

The Company is a wholly owned subsidiary of IMI Group Limited.

The Company's principal activity is to operate as an intermediate holding company and provide services, including financial facilities, to other IMI plc group companies. There have not been any significant changes in the Company's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year. The overall Company performance for the year and the future is dependent upon dividend income from its subsidiaries, the financing structure of its net current liabilities and the service levels for its IMI plc group customers.

During the year the Company strengthened its balance sheet through the receipt of £103 million in dividends from subsidiaries.

During the year, the administrative costs base of the Company and its ultimate parent, IMI plc, was reviewed and certain costs formerly borne by the Company were borne by IMI plc reducing the cost base of the Company going forward.

Details of amounts loaned to the parent company, IMI Group Limited, are shown in note 10 on page 18.

As the Company is an intermediate holding company, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company.

2. Principal risks and uncertainties

The company is financed by variable rate loans from other IMI plc group companies.

Group risks are managed at group level, rather than on an individual company or business unit level. For this reason, the Company's directors believe that a discussion of the Company's risks would not be appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of the IMI plc group, which include those of the Company, are discussed on pages 39 to 41 of the group's annual report which does not form part of this report.

At 31 December 2008 the Company had net liabilities of £55.7m (2007: £128.0m). The directors have obtained a letter from the parent company, IMI Group Limited, confirming continued financial support for at least a further twelve months.

3. Profits and Dividends

The results for the financial year are shown in the financial statements. The Directors did not pay a dividend in 2008 (2007: Nil). The profit for the year of £72.3m (2007: £105.2m loss) has been transferred to reserves.

4. Board of Directors

There were no new appointments or resignations during the year ended 31 December 2008. On 19 February 2009 J C Morgan (formerly Miss J C Bower) resigned as a director and H Afford was appointed.

5. Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

6. Employment of Disabled Persons

Every effort is made to ensure that applications for employment from disabled persons are fully and fairly considered and that disabled employees have equal opportunities in training and promotion.

7. Employee Involvement

The Directors believe that considerable benefit can be derived from the provision of systematic channels for employee participation. Formal joint consultative machinery has been in operation for many years and exchanges of information between management and employees is strongly encouraged.

During the year, joint consultation has continued, through exchange of information and constructive discussion, to play a vital role in ensuring consideration of employees' views on matters likely to affect their interests, and in developing understanding of factors affecting the performance of the Company.

The Company operates an All Employee Share Ownership Plan, under which an annual bonus worth up to £3,000 can be awarded to employees in shares of IMI plc.

Each employee received a summary of the IMI Annual Report and a copy of the full IMI Annual Report is available to all.

8. Policy on the Payment of Creditors

The Company policy is to make its suppliers aware of the terms of payment, to agree such terms with its suppliers for each business transaction and to make payments to suppliers in accordance with these terms, provided that the supplier is also complying with all relevant terms.

9. Donations

During the year the Company made no political donations. Charitable contributions of £150,000 (2007: £116,000) were made.

By Order of the Board



J O'Shea
Director

3 August 2009

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

We have audited the financial statements of IMI Kynoch Limited for the year ended 31 December 2008, which comprise the Profit and loss account, the Balance Sheet, the Reconciliation of movements in shareholder's deficit, the Statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

**KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL**

*Chartered Accountants
Registered Auditor*
3 August 2009

IMI KYNOCH LIMITED**Profit and loss account****for the year ended 31 December 2008****IMI**

	Notes	2008 £'000	2007 £'000
Group service charges		11,342	10,846
Rental income		1,934	2,342
Administrative expenses (2007 includes an allocation from IMI plc of EC fine of £51.2m)		<u>(14,215)</u>	<u>(84,630)</u>
Operating loss		(939)	(71,442)
Profit on disposal of fixed assets		2,380	1,105
Income from shares in group undertakings	2	103,000	-
Interest receivable and similar income	3	34,076	45,096
Exchange gains / (losses) on foreign currency loans		4,382	(1,157)
Amounts written off investments	9	(6,896)	(7,067)
Interest payable and similar charges	4	<u>(71,616)</u>	<u>(89,384)</u>
Profit / (loss) on ordinary activities before taxation	5	64,387	(122,849)
Tax on profit / (loss) on ordinary activities	7	7,902	17,638
Profit / (loss) on ordinary activities after taxation		<u> </u>	<u> </u>
being profit / (loss) for the financial year	16	<u>72,289</u>	<u>(105,211)</u>

All profits and losses on ordinary activities before taxation for the current and preceding year arise from continuing operations.

There is no difference between the profit or loss shown in the profit and loss accounts for the current year and the preceding year and their historical cost equivalents.

IMI KYNOCH LIMITED**Balance Sheet****as at 31 December 2008****IMI**

	Notes	2008		2007	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	8		9,666		10,721
Investments	9		637,432		644,328
			<u>647,098</u>		<u>655,049</u>
Current assets					
Debtors (including £523.8m due after more than one year (2007: £266.9m))	10	828,540		550,725	
Cash at bank and in hand		<u>55,180</u>		<u>16,127</u>	
		<u>883,720</u>		<u>566,852</u>	
Creditors:					
Amounts falling due within one year	11	<u>(1,586,560)</u>		<u>(1,349,932)</u>	
Net current liabilities			<u>(702,840)</u>		<u>(783,080)</u>
Net liabilities			<u>(55,742)</u>		<u>(128,031)</u>
Financed by:					
Capital and reserves					
Called up share capital	15	12,500		12,500	
Share premium account	16	7,500		7,500	
Profit and loss account	16	<u>(75,742)</u>		<u>(148,031)</u>	
Equity Shareholder's deficit			<u>(55,742)</u>		<u>(128,031)</u>

These financial statements were approved by the board of directors on 3 August 2009 and were signed on its behalf by:



D M HURT
Director

for the year ended 31 December 2008
Statement of total recognised gains and losses

	2008	2007
	£000	£000
Profit / (loss) for the financial year	72,289	(105,211)
Total recognised gains and losses for the year	72,289	(105,211)
Prior year adjustment	-	(3,551)
Total recognised gains and losses since the last annual report	72,289	(108,762)

Reconciliation of movements in shareholder's deficit

	2008	2007
	£000	£000
Profit / (loss) for the financial year	72,289	(105,211)
Prior year charge in relation to share based payments	-	(3,565)
Net decrease / (increase) in shareholder's deficit for the year	72,289	(108,776)
Shareholder's deficit at 1 January	(128,031)	(19,255)
Shareholder's deficit at 31 December	(55,742)	(128,031)

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

(a) Basis of preparation

The financial statements have been prepared on a going concern basis, which the directors believe to be appropriate, in accordance with applicable UK accounting standards. The Company is dependent upon its parent company, IMI Group Limited, to provide financial support as necessary. IMI Group Limited has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company subject to the Company remaining a member of the IMI plc group.

The financial statements present information about the Company and not the group as the company, being a wholly-owned subsidiary of another UK body corporate, is exempt from the requirement to prepare group Financial Statements under section 228 of the Companies Act 1985 and to deliver them to the Registrar of Companies.

The financial statements have been prepared in accordance with applicable Accounting Standards. A group cash flow statement for the year ended 31 December 2008 which includes the cash flows of this Company is included in the IMI plc Annual Report and accordingly no cash flow statement is shown in these financial statements.

(b) Fixed assets and depreciation

Freehold land is not depreciated. Depreciation is calculated so as to write off the cost of other tangible fixed assets by equal instalments over their estimated useful lives as follows:

Freehold buildings	between 30 and 40 years
Leasehold land and buildings	over the lease term
Plant and equipment	between 1 and 10 years

(c) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rates or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

1. Accounting policies (continued)**(d) Pensions**

The company is a member of a pension scheme providing benefits based on final pensionable pay. The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, and therefore, as permitted by FRS 17 "Retirement Benefits" the scheme is accounted for by the company as if the scheme was a defined contribution scheme. Further information on the funding status of the scheme and the latest full actuarial valuation are disclosed in the accounts of IMI plc.

(e) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

(f) Leasing

Operating lease rentals for equipment are charged to the profit and loss account on an accruals basis.

(g) Investments

Investments are held at cost less any provisions for impairment. Where the functional currency of a subsidiary changes from a foreign currency to sterling, the cost of investment is deemed to be the value at the date the subsidiary's functional currency is converted.

(h) Dividends on shares presented within shareholder's funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

1. Accounting policies (continued)**(i) Equity and equity related compensation benefits**

The Company participates in an Executive Share Option Scheme, a SAYE Share Option Scheme, an All Employee Share Ownership Plan and a Performance Share Plan. For options granted on or after 7 November 2002, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense each year.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options is determined based on the Black-Scholes option-pricing model.

At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement.

2. Income from shares in group undertakings

Income from shares in group undertakings for the year ending 31 December 2008 resulted from dividends paid by IMI Kynoch Ltd's subsidiaries to IMI Kynoch Ltd.

3. Interest receivable and similar income

	2008	2007
	£000	£000
On loans to group undertakings	33,856	44,752
On bank balances	220	344
	<u>34,076</u>	<u>45,096</u>

4. Interest payable and similar charges

	2008	2007
	£000	£000
On bank loans and overdrafts	(880)	(1,449)
On loans from group undertakings	(70,736)	(87,935)
	<u>(71,616)</u>	<u>(89,384)</u>

5. Profit / (loss) on ordinary activities before taxation

The profit / (loss) on ordinary activities before taxation is stated after charging the following:

	2008	2007
	£000	£000
Depreciation of tangible fixed assets	520	657
Hire of plant and machinery	<u>182</u>	<u>172</u>
<i>Auditor's remuneration</i>		
Audit of these financial statements	<u>19</u>	<u>19</u>

Amounts receivable by the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent company, IMI plc.

IMI KYNOCH LIMITED**Notes to the financial statements****for the year ended 31 December 2008** *(continued)***IMI****6. Employee information****(a) Remuneration of directors**

	2008	2007
	£000	£000
Directors' emoluments	622	521
Pension contributions	14	12
	<u>636</u>	<u>533</u>

The aggregate of emoluments of the highest paid director was £521,062 (2007: £431,535) and company pension contributions of £1,800 (2007: £1,635) were made to a defined benefit scheme on his behalf. His accrued pension at the end of the year was £65,615 (2007:£59,600). He has exercised and received share options in IMI plc. D M Hurt is a director of the Company, but as he is also a director of IMI plc, his remuneration is disclosed in the annual report of IMI plc.

During the year two (2007: two) directors exercised options over shares of IMI plc.

Number of Directors
2008 2007

At the end of the year, retirement benefits are accruing to the following number of directors:

Defined benefit schemes	<u>2</u>	<u>2</u>
The number of directors who exercised share options were	<u>2</u>	<u>2</u>

6. Employee information (continued)**(b) Staff numbers and costs**

The average number of persons, all of which held administrative roles, employed and whose costs were by the Company during the year was 104 (2007: 143).

The aggregate payroll costs of these persons were as follows:

	2008	2007
	£000	£000
Wages and salaries	3,652	10,733
Share based payments	2,627	2,065
Social security costs	578	1,253
Other pension costs	312	975
	<u>7,169</u>	<u>15,026</u>

7. Taxation*Analysis of charge in year*

	2008		2007	
	£000	£000	£000	£000
<i>UK Corporation tax</i>				
Current tax credit on profit / (loss) for the period	8,880		16,491	
Adjustments in respect of prior periods	<u>(682)</u>		<u>(108)</u>	
		8,198		16,383
<i>Foreign tax</i>				
Current tax on income for the period		-		(69)
Total current tax credit		8,198		16,314
Deferred tax (see note 13)				
Origination / (reversal) of timing differences		<u>(296)</u>		<u>1,324</u>
Tax credit on profit / (loss) on ordinary activities		<u>7,902</u>		<u>17,638</u>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2007: lower) than the company's underlying rate of tax of 28.5%. The differences are explained on page 16.

IMI KYNOCH LIMITED**Notes to the financial statements****for the year ended 31 December 2008 (continued)****IMI****7. Taxation (continued)***Current tax reconciliation*

	2008	2007
	£000	£000
Profit / (loss) on ordinary activities before tax	<u>64,387</u>	<u>(122,849)</u>
	2008	2007
	%	%
Average rate of corporation tax	28.5	30.0
Effects of:		
Capital allowances for the period in excess of depreciation	1.5	(1.0)
Non taxable and non deductible items	2.0	(16.0)
Non taxable dividends	(46.0)	-
Tax rate in profit and loss account	<u>(14.0)</u>	<u>13.0</u>

In April 2008 the UK corporation tax rate changed from 30% to 28%.

8. Tangible Fixed Assets

	Land & Buildings £000	Plant & Equipment £000	Total £000
Cost at:			
Beginning of year	19,751	2,024	21,775
Additions	-	233	233
Disposals	<u>(1,646)</u>	<u>(41)</u>	<u>(1,687)</u>
End of year	<u>18,105</u>	<u>2,216</u>	<u>20,321</u>
Depreciation and amortisation at:			
Beginning of year	9,592	1,462	11,054
Charged in the year	405	115	520
Disposals	<u>(878)</u>	<u>(41)</u>	<u>(919)</u>
End of year	<u>9,119</u>	<u>1,536</u>	<u>10,655</u>
Net book value at 31 December 2008	<u>8,986</u>	<u>680</u>	<u>9,666</u>
Net book value at 31 December 2007	<u>10,159</u>	<u>562</u>	<u>10,721</u>

The net book value of land and buildings comprises:

	2008	2007
	£000	£000
Freehold land and buildings	6,749	7,814
Short leasehold land and buildings	<u>2,237</u>	<u>2,345</u>
	<u>8,986</u>	<u>10,159</u>

9. Fixed asset investments

	Shares in group undertakings £000	Shares in participating interests £000	Total £000
Cost/valuation			
At beginning and end of year	690,322	497	690,819
Provision			
At beginning	46,491	-	46,491
Made during the year	6,896	-	6,896
At end of year	53,387	-	53,387
Net book value at 31 December 2008	636,935	497	637,432
Net book value at 31 December 2007	643,831	497	644,328

At 31 December 2008 the historical cost of shares in group undertakings was £712,051,000 (2007: £712,051,000). The net book value, on an historical cost basis, of shares in group undertakings at 31 December 2008 was £658,664,000 (2007: £665,560,000).

The historical cost and net book value of shares in participating interests are the same as shown above.

Interest in group undertakings

The following is a list of the company's subsidiary undertakings, except for some dormant and intermediate holding companies, all of which are incorporated in Great Britain, unless stated. Companies marked * are held directly by the Company, the others are held by intermediate holding companies.

	<u>Class Of Share</u>	<u>Percentage Owned</u>	<u>Type of Business</u>
IMI Property Investments Limited*	Ordinary	100%	Property
IMI Vision Limited*	Ordinary	100%	Corporate
IMI Holdings LLC (USA)*	Ordinary	100%	Corporate
Premier Profiles Ltd*	Ordinary	100%	Corporate
Brookvale Int'l Insurance Limited (Bermuda)*	Ordinary	100%	Insurance Services

IMI KYNOCH LIMITED**Notes to the financial statements****for the period ended 31 December 2008** *(continued)***IMI****Interest in group undertakings (continued)**

	<u>Class Of Share</u>	<u>Percentage Owned</u>	<u>Type of Business</u>
Commtech Ltd*	Ordinary	100%	Fluid Controls
IMI Scott Ltd	Ordinary	100%	Fluid Controls
IMI Norgren Limited*	Ordinary	100%	Fluid Controls
IMI Watson Smith Limited*	Ordinary	100%	Fluid Controls
Tour & Andersson Limited*	Ordinary	100%	Fluid Controls
IMI Components Limited*	Ordinary	100%	Fluid Controls
IMI Webber Limited*	Ordinary	100%	Fluid Controls
Norgren European Logistics Co Ltd*	Ordinary	100%	Fluid Controls
Eley Limited*	Ordinary	100%	Fluid Controls
Accles and Shelvoke Limited*	Ordinary	100%	Fluid Controls
CCI International Limited*	Ordinary	100%	Fluid Controls
Artform International Ltd	Ordinary	100%	Retail Dispense
Objex Ltd	Ordinary	100%	Retail Dispense
IMI Cornelius (UK) Limited*	Ordinary	100%	Retail Dispense
	Preference	100%	
DCI Marketing Europe Limited*	Ordinary	100%	Retail Dispense
Creative Identities Ltd*	Ordinary	100%	Retail Dispense

In the opinion of the directors, the aggregate value of the investment in subsidiary companies at 31 December 2008 is not less than the aggregate carrying value stated in the balance sheet.

Undertakings in which the Company has a participating interest

The Company owns 24.89% of the Ordinary shares in Waterwerkz Limited incorporated in Great Britain. In the opinion of the Directors the value of this investment is not less than the carrying value stated in the balance sheet.

10. Debtors

	2008	2007
	£000	£000
Trade debtors	32	74
Amounts advanced to parent	256,605	59,061
Amounts advanced to other group undertakings	559,378	471,593
Corporation tax	9,604	16,567
Prepayments and accrued income	2,234	2,447
Deferred tax asset (see note 13)	687	983
	828,540	550,725

Amounts advanced to overseas group undertakings are at arm's length terms and bear interest at the relevant LIBOR plus an appropriate margin. This also applies, in most instances, to amounts advanced to both the parent and other UK group undertakings.

Debtors include amounts owed by group undertakings of £523.6m (2007: £266.9m) and deferred tax of £0.2m (2007: £ nil) due after more than one year.

IMI KYNOCH LIMITED**Notes to the financial statements****for the year ended 31 December 2008 (continued)****IMI****11. Creditors: amounts falling due within one year**

	2008	2007
	£000	£000
Bank overdrafts	69,469	33,997
Trade creditors	3,519	3,106
Amounts owed to other group undertakings	1,504,525	1,301,021
Other taxation	392	408
Social security	129	116
Other creditors	4,342	5,526
Accruals and deferred income	4,184	5,758
	<u>1,586,560</u>	<u>1,349,932</u>

Amounts owed to overseas group undertakings are at arm's length terms and bear interest at the relevant LIBOR plus an appropriate margin. This also applies, in most instances, to amounts owed to other UK group undertakings.

12. Contingent liabilities

The company has overdraft facilities which form part of a composite accounting arrangement between IMI plc and certain of its subsidiaries. Accordingly, the company in concert with those other group companies has entered into arrangements whereby each has offered a limited guarantee in respect of others' overdraft borrowings from time to time. The company's maximum liability is limited to the extent of its current account cash balances from time to time which at 31 December 2008 amounted to £55.2m (2007: £16.1m).

13. Deferred tax

The elements of deferred taxation are as follows

	2008	2007
	£000	£000
Accelerated capital allowances	158	303
Other timing differences	529	680
Deferred tax asset	<u>687</u>	<u>983</u>
Asset at start of year	983	
Deferred tax charge in profit and loss account for year	<u>(296)</u>	
Deferred tax asset at end of year (see note 10)	<u>687</u>	

IMI KYNOCH LIMITED**Notes to the financial statements****for the period ended 31 December 2008 (continued)****IMI****14. Related party transactions**

The company has taken advantage of the exemption available under FRS8 "Related Party Transactions" not to disclose transactions between the company and other fellow subsidiaries and group undertakings of IMI plc.

15. Share Capital

	2008	2007
	£000	£000
<i>Authorised, allotted, called up and fully paid</i>		
12,500,000 ordinary shares of £1 per share	<u>12,500</u>	<u>12,500</u>

16. Share Premium and reserves

	Share Premium Account £000	Profit and loss account £000
Balance as at 1 January 2008	7,500	(148,031)
Profit on ordinary activities after tax		72,289
Balance as at 31 December 2008	<u>7,500</u>	<u>(75,742)</u>

17. Dividends

The aggregate amount of dividends comprises

	2008	2007
	£000	£000
Dividends received	<u>103,000</u>	<u>-</u>

18. Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2008		2007	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	32	-	32
In the second to fifth years inclusive	-	142	-	189
Over five years	518	-	518	-
	<u>518</u>	<u>174</u>	<u>518</u>	<u>221</u>

19. Share based payments

The Company participates in the following IMI plc Group share-based payment schemes:

SAYE savings-related share option scheme

This scheme is open to the majority of the Group's UK employees, including the executive directors, and allows the grant of options to all participants at a discount of up to 20% below the market price. Such schemes are not subject to performance conditions and offer tax incentives to encourage employees to use their own money to purchase shares in IMI plc. SAYE options are exercisable within 6 months of the exercise date and otherwise expire.

Executive Share Option Scheme

Executive share options were last awarded in 2005 under the Executive Share Option (1995) Scheme which expired in May 2006. All outstanding options granted under this scheme were granted subject to stretching tiered performance conditions related to growth in earnings per share above inflation over a fixed period of three financial years. Executive share options expire if not exercised or lapsed within the periods shown on page 22.

Long Term Incentive Plan (LTIP)

The LTIP allows cash awards to selected senior managers within the Group subject to certain performance conditions. At the end of the performance period, the net of tax value of any LTIP payments must normally be invested in market purchases of IMI plc's ordinary shares pursuant to a deferred share plan. Such share purchases are to be made through an employee trust and held for a further three year period. After that period, matching shares are awarded of one additional share for every four with no further performance conditions.

Performance Share Plan (PSP)

These are open to selected senior managers within the IMI plc Group. 50% of these PSP shares vest subject to EPS growth, based on internal financial performance conditions. Hence, for purposes of FRS 20 *Share-based payments*, the fair value of the shares does not include any performance related discount. The plan uses TSR (total shareholder return) as a performance condition for the other 50% of shares granted. As TSR is a market based performance condition, the accounting treatment differs from that for shares subject to internal performance conditions. This means that the TSR performance condition must be incorporated into the calculation of the fair value, that is, there is a TSR-related discount in calculating the fair value.

Deferred Bonus Plan (DBP)

Under the DBP rules up to 2008, senior managers may elect to voluntarily defer all or part of 50% of their annual bonus for three years and have it delivered in shares in IMI plc. Additional shares, in the form of a matching award, may be earned to a maximum of 100% of the deferred bonus at the entry share price level if stretching performance conditions are met by IMI plc over the three year deferral period. IMI plc shareholder approval was given in April 2009 to allow participants to purchase additional shares for deferral from salary or other monies to bring their overall annual contribution up to a total amount equal to 100% of their maximum bonus potential. The level of matching award made in respect of future awards will vary dependent upon whether or not an individual has met their share ownership guideline.

19. Share based payments (continued)

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Analysis of options granted

	Employee SAYE options			Executive Options		
	Number of options	Weighted Average Option Price	Normal Exercisable Date	Number of options	Weighted Average Option Price	Normal Exercisable Date
2003	578,482	201p	2007-2010	1,230,500	257p	2007-2013
2004	444,672	289p	2007-2009	1,231,000	358p	2007-2014
2005	212,781	380p	2008-2010	45,000	421p	2008-2015
2006	42,990	495p	2009-2011	-	-	-
2007	37,927	517p	2010-2012	-	-	-
2008	68,354	391p	2011-2013	-	-	-

	Long Term Incentive Plan (1)		Performance Share Plan (1)		Deferred Bonus Plan (1)	
	Number of awards	Normal Exercisable Date	Number of awards	Normal Exercisable Date	Number of awards	Normal Exercisable Date
2003	-	-	-	-	-	-
2004	-	-	-	-	-	-
2005	26,877	2008	489,400	2008	-	-
2006	36,342	2009	398,200	2009	101,242	2009
2007	60,881	2010	374,750	2010	141,100	2010
2008	80,416	2011	523,860	2011	141,634	2011

(1) These options were granted at an option price of £nil.

The number and weighted average exercise price of share options are as follows

	Employee SAYE options			Executive options		
	Number of options	Range of option prices	Weighted average option price	Number of options	Range of option prices	Weighted average option price
Outstanding at 1 January 2007	162,322	201-494.55p	337p	1,416,000	257-421p	350p
Exercisable at 1 January 2007	2,256	201p	201p	145,000	257p	257p
Granted	39,635	517.18p	517.18p	-	-	-
Exercised	19,971	289-494.55p	297p	1,178,803	257-358p	348p
Lapsed	11,636	201-517.18p	423p	28,890	358p	358p
Outstanding at 31 December 2007	170,350	201-517.18p	378p	208,307	257-421p	358p
Exercisable at 31 December 2007	2,908	201-289p	221p	163,307	257-358p	341p
Granted	68,354	391.41p	391.41p	-	-	-
Exercised	41,368	201-380p	261p	91,625	358-421p	371p
Lapsed	40,470	201-517.18p	444p	15,000	257p	257p
Outstanding at 31 December 2008	156,866	201-517.18p	397p	101,682	257-421p	362p
Exercisable at 31 December 2008	5,769	201-380p	329p	101,682	257-421p	362p

	Long Term Incentive Plan	Performance Share Plan	Deferred Bonus Plan
	Number of shares	Number of shares	Number of shares
Outstanding at 1 January 2007	63,219	887,600	104,722
Exercisable at 1 January 2007	-	-	-
Granted	60,881	374,750	141,100
Exercised	-	-	-
Lapsed	3,073	15,250	3,752
Outstanding at 31 December 2007	121,027	1,247,100	242,070
Exercisable at 31 December 2007	-	-	-
Granted	80,416	523,860	141,634
Exercised	23,804	200,240	-
Lapsed	-	351,160	2,514
Outstanding at 31 December 2008	177,639	1,219,560	381,190
Exercisable at 31 December 2008	-	8,900	-

The total expenses recognised for the year arising from share based payments are as follows:

	2008	2007
	£000	£000
Equity settled share based payment expense recognised in the profit and loss account	2,627	2,065

20. Disclosable Contracts

There were no disclosable contracts or arrangements between the Company and any of its Directors, nor were any of its Directors materially interested in any contract or arrangements subsisting during or at the end of the year.

21. Ultimate parent Company

The immediate parent company is IMI Group Limited, incorporated in England and Wales. The ultimate parent company is IMI plc, incorporated in England and Wales.

The results of the company are consolidated into the group accounts of IMI plc. The consolidated accounts of IMI plc are available to the public and may be obtained from:

The Company Secretary
IMI plc
Lakeside
Solihull Parkway
Birmingham Business Park
Birmingham B37 7XZ

No other group accounts include the results of the company.